

Tariff Commission Report
of the
Continuance of Protection to the
cocoa Pouler and chocolate Industry
1954

By
Tariff Commission
Ministry of Commerce
and
Industry Gov. of India

The emblem of India, featuring the Lion Capital of Ashoka, is positioned in the background behind the text 'By Tariff Commission Ministry of Commerce and Industry Gov. of India'.

MINISTRY OF COMMERCE & INDUSTRY

RESOLUTION

TARIFFS

New Delhi, the 7th September, 1954

No. 12(3) T.B./54.—The Tariff Commission has submitted its Report on the continuance of protection to the Cocoa Powder and Chocolate Industry on the basis of an enquiry undertaken by it under Sections 11(e) and 13 of the Tariff Commission Act, 1951. Its recommendations are as follows:—

- (1) The import duty on cocoa powder should be maintained at the existing rate of 31½ per cent. *ad valorem* (including surcharge). As regards covering chocolate, the protective duty should be raised to 50 per cent. *ad valorem* (including surcharge) with immediate effect. These rates of duties should remain in force till 31st December, 1956.
- (2) Cocoa beans should continue to be exempt from payment of import duty.
- (3) Government should consider the desirability of placing cocoa beans on Open General Licence.
- (4) Sathe Biscuit & Chocolate Co. should make further efforts to improve the keeping quality of their products.
- (5) The Sathe Biscuit & Chocolate Co. Ltd. should take steps to expand their production of cocoa butter with a view to meeting the entire domestic requirements.

2. Government accept recommendation No. (1) and will take steps in due course to continue the protection granted to the industry for a further period of two years. The rate of protective duty on covering chocolate will also be increased with immediate effect as recommended by the Commission. Necessary Notifications have been issued to-day. As regards recommendation Nos. (2) and (3), Cocoa beans are already free of import duty and Government will take suitable steps to ensure the adequate availability of cocoa beans to the industry.

3. The attention of the Industry is invited to recommendations (4) and (5).

ORDER

ORDERED that a copy of the Resolution be communicated to all concerned and it be published in the *Gazette of India*.

K. B. LALL,
Joint Secretary to the Government of India.

No. 12(3)T.B./54.

erned.

By order etc.,
A. K. CHAKRAVARTI,
Secretary to the Government of India.

MINISTRY OF COMMERCE & INDUSTRY

NOTIFICATION

TARIFFS

New Delhi, the 7th September, 1954

No. 12(3)T.B./54—In exercise of the powers conferred by sub-section (1) of section 4 of the Indian Tariff Act, 1934 (XXXII of 1934), the Central Government hereby directs that the customs duties leviable under item number 18 of the First Schedule to the said Act on cocoa and chocolate other confectionery, as specified in the second column of the Table annexed hereto, shall be modified as indicated in the third column of the said Table.

TABLE

Item Number of Tariff	Name of article	Modified rate of duty
(1)	(2)	(3)
18	Cocoa and chocolate other than confectionery—	
	(a) Cocoa powder	31½ per cent <i>ad valorem</i> .
	(b) Chocolate other than confectionery	50 per cent <i>ad valorem</i> .

K. B. LALL,
Joint Secretary to the Government of India.

No. 12(3)T.B./54.

Copy to all concerned.

By order etc.,
A. K. CHAKRAVARTI,
Under Secretary to the Government of India.

MINISTRY OF FINANCE (REVENUE DIVISION)

NOTIFICATION

CUSTOMS

New Delhi, the 7th September, 1954.

S.R.O. No. 2934.—In exercise of the powers conferred by section 23 of the Sea Customs Act, 1878 (VIII of 1878), the Central Government hereby directs that the following further amendment shall be made in the notification of the Government of India in the Ministry of Finance (Revenue Division), No. 13-Customs, dated the 28th February, 1953, namely:—

In the Schedule annexed to the said notification, after serial No. 48 and connected entries, the following serial number and connected entries shall be inserted, namely:—

Serial No.	Name of article	Limitation or condition	Extent of exemption
"49	(a) Cocoa powder		"The whole"
	(b) Chocolate other than confectionery.		

[No. 104.]

E. RAJARAM RAO,
Joint Secretary to the Government of India.

PERSONNEL OF THE COMMISSION

SHRI M. D. BHAT	<i>Chairman.</i>
SHRI B. N. ADARKAR, M.A. (CANTAB.)	<i>Member.</i>
SHRI B. N. DAS GUPTA, B.A., A.S.A.A. (LONDON), F.C.A.	<i>Member.</i>
SHRI C. RAMASUBBAN	<i>Member.</i>
DR. D. K. MALHOTRA, M.A., PH.D.	<i>Secretary.</i>

Personnel of the Panel which heard the case

SHRI B. N. ADARKAR	<i>Member.</i>
SHRI B. N. DAS GUPTA	<i>Member.</i>
SHRI C. RAMASUBBAN	<i>Member.</i>



सत्यमेव जयते

CONTENTS

<i>Para.</i>	<i>Page No</i>
1. Previous tariff inquiries	I
2. Present inquiry	I
3. Method of inquiry	1
4. Raw Materials	2
5. Domestic demand	3
6. Rated capacity and indigenous production	3
7. Quality	5
8. Import control policy and imports	6
9. Existing rates of duties	7
10. Commission's estimate of cost of production and fair ex-works price inclusive of freight disadvantage	7
11. C.i.f. prices and landed costs	14
12. Measure of protection	14
13. Other recommendations	15
14. Proposed changes in the customs Tariff Schedule	16
15. Summary of conclusions and recommendations	16
16. Acknowledgements	17

APPENDICES

I.—List of firms to whom the Commission's questionnaires were issued and those who replied thereto	18
II.—List of persons who attended the public inquiry on 15th January, 1954	19
III.—Statement showing c.i.f. prices and landed costs of imported cocoa powder and chocolate	20

REPORT ON THE CONTINUANCE OF PROTECTION TO THE COCOA POWDER AND CHOCOLATE INDUSTRY 1954

1. The claim of the indigenous cocoa powder and chocolate industry to protection or assistance was first referred to the Tariff Board by the Government of India in the Department of Commerce by their Resolution No. 218-T(55)/45, dated 16th February, 1946. The Board after making the necessary inquiries submitted its report on 13th August, 1946. The principal recommendation of the Board that the industry should be given protection for a period of not less than 3 years by converting the then revenue duty of 30 per cent. *ad valorem* into an equivalent protective duty was accepted by Government and was given effect to by the Indian Tariff (Amendment) Act, 1947. The protective duties were to remain in force upto 31st March, 1950 in the first instance. In accordance with the Board's recommendation, Government also abolished the revenue duty of 30 per cent. *ad valorem* on the imports of cocoa beans. Towards the end of 1949, the Tariff Board undertook another inquiry with a view to determining whether the protection granted to the industry should be continued beyond 31st March, 1950. The Board's recommendation that the scheme of protection should be continued without modification for a further period of two years ended 31st March, 1952, was accepted by Government and the period of protection was accordingly extended. Under the Finance Act, 1951, the protective duty was raised to 31½ per cent *ad valorem*. Pending another inquiry into the industry, the period of protection was extended in consultation with the Tariff Commission, first upto 31st December, 1952 and later upto 31st December, 1953 and again upto 31st December, 1954.

2. The present inquiry was undertaken under Section 11(e) read with Section 13 of the Tariff Commission Act, 1951, under which the Commission is empowered to investigate into the working of protection granted to an industry and to recommend any further action required, with a view to its increase, decrease, modification or abolition according to the circumstances of the case.

3. (a) On 19th October, 1953, the Commission issued a press communique inviting manufacturers, importers, consumers and others interested in the industry or in the industries dependent upon the use of its products, to obtain copies of the relevant questionnaires from the Secretary to the Commission and to submit replies thereto. Simultaneously, questionnaires were issued to all the known producers, importers and consumers. A list of those to whom the questionnaires were issued and from whom replies or memoranda were received is given in Appendix I. Information relating to c.i.f. prices and landed costs of imported cocoa powder and covering chocolate was sought from the Collectors of Customs at the principal ports. The Development Wing of the Ministry of Commerce and Industry was requested to forward a memorandum on the present position of the industry. The Director, Central Food Technological Research Institute, Mysore, was

requested to submit a memorandum with particular reference to the quality of the indigenous products and the technique of manufacture. The Secretary, the Indian Council of Agricultural Research, New Delhi, was consulted regarding the possibilities of indigenous production of cocoa beans.

(b) Shri B. N. Das Gupta, Member, visited the factory of Sathe Biscuit and Chocolate Co. Ltd., Poona, on 8th January, 1954. Subsequently, Shri B. N. Adarkar and Shri C. Ramasubban, Members, accompanied by Shri S. S. Mehta, Technical Director (Chemicals), visited the same factory on 13th January, 1954. Shri L. M. Ghosh, Assistant Cost Accounts Officer, investigated the costs of production at this factory from 29th December, 1953 to 2nd January, 1954.

(c) A public inquiry into the industry was held on 15th January, 1954 at the Commission's office in Bombay. A list of persons who attended the inquiry is given in Appendix II.

4. Cocoa beans and sugar are the principal raw materials required for the manufacture of cocoa powder and covering chocolate.

(a) *Cocoa beans*.—There is no indigenous production of cocoa beans on a commercial scale. The Government of Madras has planted about 600 cocoa bean plants in the Nilgiris as an experimental measure but the total annual production of these plants is estimated at 1,200 to 1,400 lbs. only, although the quality of the beans was stated to be equal to that of Ceylon beans. Until such time as cocoa beans are produced in the country in sufficient quantities, the industry will have to depend upon imports for this raw material. The principal suppliers of cocoa beans are Ceylon, Brazil and West Africa. We understand that imports of cocoa beans are liberally licensed. However, since purchases have to be made during a certain period when the fresh crop comes into the market, the delay involved in the import licensing procedure sometimes causes difficulties to the producer. The Ceylon crop comes into the market usually in November, and the West African and Brazilian crops in January of each year. While producers in foreign countries are able to purchase their requirements when the prices are at their lowest, this advantage is denied to the indigenous producer who has to make the purchases only when import licences become available and during the validity of the licences. Sathe Biscuit and Chocolate Co. Ltd. maintain that they are the only importers of cocoa beans in India and that the beans cannot be put to any other use except for the manufacture of cocoa powder and chocolate. They have, therefore, suggested that imports of cocoa beans be put on O.G.L. We see considerable force in the case put forward by the manufacturer and recommend that Government should consider the desirability of placing cocoa beans on O.G.L. We recommend further that cocoa beans should continue to be exempt from payment of import duty.

(b) *Sugar*.—Sathe Biscuit and Chocolate Co. have complained that while they are able to get adequate supplies of sugar, they have had to pay, since sugar was decontrolled, a price of Rs. 950 per ton as against a price of Rs. 525 to Rs. 550 per ton at which sugar is available to chocolate manufacturers in U.K. They have, therefore, requested that special arrangements should be made to enable them

to obtain their requirements of sugar at the ex-factory price. In the manufacture of chocolates, the cost of sugar accounts for about 10 per cent. of the total raw material cost and we feel that if any special arrangements were made for this industry, such arrangements may have to be extended to other industries in which the cost of sugar constitutes a similar or higher proportion of the cost of materials. Government have recently taken various measures to bring down the market prices of sugar and as these measures become effective, this industry along with others, will obtain the necessary relief. In our estimate of cost of production, we have allowed for the cost of sugar at the prevailing price. We are, therefore, unable to support the firm's request in this matter.

5. At the 1949 inquiry, the Tariff Board estimated the aggregate domestic demand for cocoa powder and chocolate during the next three years at 15,000 cwts. per annum made up as follows:—

	Cwts.
Cocoa powder	2,500
Covering chocolate	4,000
Covering chocolate contained in eating chocolate	8,500
	<hr/> 15,000 <hr/>

In connection with the present inquiry, the Development Wing of the Ministry of Commerce and Industry has estimated the present demand at 5,000 cwts. for cocoa powder and 15,000 cwts. for covering chocolate, making a total of 20,000 cwts. Sathé Biscuit and Chocolate Co. on the other hand, estimate the current demand at 10,000 cwts. We have examined these estimates and consider that both the Development Wing's estimate and the estimate adopted at the last inquiry are on the high side, for the following reason. It will be seen from the statistics given later in this Report that the sum total of imports and indigenous production of cocoa powder and covering chocolate was 8,676 cwts. in 1951, 6,936 cwts. in 1952 and 9,747 cwts. in 1953. The highest imports recorded in 1948-49, when these articles were on O.G.L. were 11,624 cwts. It was, however, contended that imports during the O.G.L. period would have been higher but for the fact that supplies were not then freely available from abroad. Referring to the pre-war period, we find that the imports of cocoa powder and chocolate were 4,590 cwts. in 1937-38 and 4,010 cwts. in 1938-39. We discussed this question at the public inquiry and after a careful consideration of all the relevant factors, we have come to the conclusion that the current demand for chocolate and cocoa powder taken together may be estimated at 10,000 cwts. per annum. Any appreciable increase in demand above this figure will entirely depend on a reduction in the prices of these articles.

6. At the time of the 1949 inquiry, Sathé Biscuit and Chocolate Co. were the only firm in India engaged in the production of cocoa powder and chocolate. This firm even now continues to be the only unit manufacturing on a large scale cocoa powder and covering chocolate

directly from cocoa beans. Since the last inquiry, the firm has installed certain additional machinery at a cost of Rs. 2.57 lakhs as a result of which its capacity on a single shift basis has increased from 1,000 cwts. to 3,000 cwts. in the case of cocoa powder and from 5,000 cwts. to 9,000 cwts. in the case of covering chocolate. There are three other small producers of covering chocolate, namely, M/s. Pure Products and Madhu Canning, Bombay, Dr. D. Writer & Co., Bombay and M/s. East India Distilleries and Sugar Factories, Madras; of these, the production of the first two firms is very small, and although the third firm, the East India Distilleries has a capacity of 2,160 cwts. of covering chocolate, its production is mostly consumed by its own factory in the manufacture of confectionary. Thus, the total installed capacity of the industry at present is 14,200 cwts. on a single shift basis of which 3,000 cwts. is for cocoa powder and 11,200 cwts. for covering chocolate. The actual output of the industry during the last 3 years was as follows:—

	Production (cwts.)		
	1951	1952	1953
<i>A.—Cocoa Powder</i>			
Sathe Biscuit and Chocolate Co. Ltd., Poona	231	520	1,056
<i>B.—Covering Chocolate</i>			
Sathe Biscuit and Chocolate Co., Ltd., Poona	2,836	3,281	1,898
East India Distilleries and Sugar Factories Ltd., Madras	216	171	148
TOTAL	3,052	3,452	2,046

It will be seen that as against the rated capacity of 3,000 cwts. for the production of cocoa powder, the actual production during the last 3 years was 231 cwts. in 1951, 520 cwts. in 1952 and 1,056 cwts. in 1953. In the case of covering chocolate, while the rated capacity is 11,200 cwts., the actual output amounted to 3,052 cwts. in 1951, 3,452 cwts. in 1952 and 2,046 cwts. in 1953. According to the information furnished to us, Cadbury-Fry (India) Ltd., Bombay received in 1948 from the Government of India, sanction for the whole scheme covering both packing and manufacturing. Since then they were engaged in repacking of cocoa powder and remoulding of chocolate. During the public inquiry as well as in our subsequent discussion with the Managing Director of this firm, we enquired of the steps taken by it in regard to its future manufacturing plans. He informed us that the scheme for the manufacture of cocoa powder and chocolate from beans was approved by the Ministry of Commerce and Industry only in 1952 and that they hope to commence production in India by the end of 1955. The capacity of their plant was stated to be 5,000 cwts. for cocoa powder and 9,000 cwts. for covering chocolate. If, therefore, the capacity of this firm also is taken into account, the total capacity of the industry by the end of 1955 for the manufacture of cocoa powder and chocolate would be 28,200 cwts.

In their replies to the Commission's questionnaire as well as during the public inquiry, the representatives of Messrs. F. D. Mehta

& Co. strongly pleaded that since there is at present virtually one producer in the country, additional units should be allowed to be established in the industry. They stated that in July, 1950 they approached the Ministry of Commerce and Industry for permission to set up a factory in Bombay and that after protracted correspondence, their request was turned down by the Ministry. They suggested that unless there was internal competition the industry would not have sufficient incentive to improve the quality of its products or to lower its production costs. We consider that since the existing capacity of the factories is in excess of domestic demand, the establishment of additional units will lead to an increase in idle capacity. As regards the need for providing competition, Government have already sanctioned the establishment of a manufacturing unit by Cadbury-Fry. It would, therefore, be in the interest of Messrs. F. D. Mehta & Co. to await further developments and see what progress Cadbury-Fry are able to make before trying to establish another unit in the country.

7. During the last inquiry, it was suggested that while the quality of the indigenous cocoa powder was satisfactory, the quality of covering chocolate did not compare favourably with that of the imported product. Sathe Biscuit & Chocolate Co. then pointed out that the defects noticed in their chocolate were due to the fact that they were using only Ceylon beans. The quality of chocolate depends upon a proper blending of beans from different sources. Sathes now claim that as a result of the installation of modern machinery in their factory, the quality of their product has considerably improved and is now equal to that of the best imported product. They have got their samples tested and approved by the Military Food Laboratory, Poona. The Development Wing of the Ministry of Commerce and Industry and the Central Food Technological Research Institute, Mysore, have also supported the claim of the producer. The Research Institute has observed:

- "1. The quality of indigenous cocoa powder and covering chocolate is quite good. The taste and flavour are as good as those of imported material. There is no grittiness in the mouth on eating the chocolate and the product is of smooth texture.
2. There is a wide range of composition in the brands of cocoa and chocolate. The products of Messrs. Sathe Biscuit & Chocolate Co., Ltd., Poona, conform to the average composition of imported ones. Since every proprietary product has its own formula, it is unnecessary to make strict comparison between two different brands.
3. There is no specific defect in the indigenous product, either chocolate or cocoa. But, on account of the higher climatic temperatures in India, especially in summer months in North India, the chocolate melts and, therefore, is not suitable for keeping in usual packaging foils and it loses the desirable brittle condition. There are two reasons for this defect. First, cocoa butter softens and melts above 26.7°C , which is below the normal summer temperatures in North India; the second reason relates to the crystalline structure of the constituent butter. As a result of defective processing, the butter assumes an unstable crystalline form which has a lower melting point."

From the evidence before us, we are satisfied that considerable improvement has taken place in the quality of the indigenous products since the last inquiry. As regards the complaint that the chocolate melts in summer months, we understand that this is true of the imported as well as the indigenous products. However, we recommend that Sathé Biscuit and Chocolate Co. should make further efforts to improve the keeping quality of their products.

8. Imports of cocoa powder and chocolate were banned during 1950, 1951 and 1952 except during the second half of 1951 when actual users were allowed to import their six months' requirements from soft currency areas. During the first half of 1953, established importers were given a quota of 5 per cent. of one half of their best year's imports for covering chocolates. The same policy was continued in the following two licensing periods also and was extended to cocoa powder as well. While this was the general policy governing the imports of cocoa powder and chocolate, Messrs. Cadbury-Fry (India) Ltd. who as mentioned earlier, were permitted by Government to set up a factory for manufacturing these products directly from beans, were granted licences for imports of these products for experimental purposes. In 1949, the firm was given a licence for imports worth Rs. 12 or 13 lakhs as actual users and the unexpired portion of the licence was revalidated during the subsequent licensing periods. In November, 1953 the same firm was granted a further licence for Rs. 12 lakhs worth of covering chocolate. The Sathé Biscuit & Chocolate Co. complained that the licence to Cadbury-Fry beyond the importer's normal quota of 2.5 per cent. of their best year's imports gave them a special advantage because the surplus, after the experimental needs were met, was placed in the market (in smaller packings) and it had, therefore, reduced the demand for the indigenous product. We would like to point out that the above mentioned licences were issued on the distinct understanding that Cadbury-Fry would undertake a phased programme of manufacture. They have, however, so far, taken no steps to start the manufacture of chocolate from beans. We are informed that the matter is already under discussion between the Government of India and the firm and we trust that no further facilities will be given to the firm to import covering chocolate and that they will be called upon to implement their undertaking to manufacture covering chocolate from beans.

The imports of cocoa powder and chocolate during the last three years were as follows:

Year	Quantity in cwts.	Value in Rs. (lakhs)
1951	5,393	8.19
1952	2,964	6.39
1953	6,645	11.36

9. Cocoa powder and chocolate, other than confectionery, are at present assessed to duty under Item No. 18 of the First Schedule to the Indian Customs Tariff (38th Issue) the relevant extract from which is given below.

Item No.	Name of article	Nature of duty	Standard rate of duty	Preferential rate of duty if the article is the produce or manufacture of			Duration of protective rates of duty
				The United Kingdom	A British Colony	Burma	
18	Cocoa and chocolate other than confectionery	Protective	31 1/4 per cent <i>ad valorem</i>	..	..	12½ per cent <i>ad valorem</i>	December 31st, 1953*

*[Subsequently extended to December 31, 1954, by the Indian Tariff (Third Amendment) Act, 1953.]

10. (a) The Commission has examined the cost of production of covering chocolates and cocoa powder produced by Sathe Biscuit & Chocolate Co. Ltd. As audited accounts were available for the years 1951-52, and 1952-53, these years were selected for costing. The system of accounting adopted by the firm does not allow of the actual cost of production to be worked out accurately. Consequently, only estimates of cost of production could be made. As the company desired that the details of their cost should be treated as confidential, we are sending the Cost Report as a separate enclosure. In the two years mentioned above, the firm produced the following quantities of cocoa powder and covering chocolate.

	1951-52 Tons	1952-53 Tons
Covering chocolates (ordinary)	42.53	49.35
Covering chocolate (milk)	95.33	81.04
Cocoa powder	13.65	26.80
	151.51	157.19

Since the last inquiry, the firm has installed new machinery with a view to improve the quality of its products.

(b) Table I below shows the cost per lb. of covering chocolate as estimated by the Tariff Board for the year 1950-51 and the cost of production as determined by us for the year 1952-53.

(c) Table II below shows the cost per lb. of cocoa powder as estimated by the Tariff Board for the year 1950-51 and the cost of production as determined by us for the year 1952-53.

TABLE I

SATHE BISCUIT & CHOCOLATE CO. LTD., POONA.

Statement showing the cost per lb. of covering chocolate as estimated by the Tariff Board in 1949 for the year 1950-51 and cost per lb. for the year 1952-53 estimated by the commission.

Details	Previous Board's Estimate for 1950-51			Commission's Estimate for 1952-53		
	Quantity	Rate per lb.	Cost per lb.	Production in tons :	Rate per lb.	Cost per lb.
	Lbs.	Rs.	Rs.	Covering chocolate		
				Milk chocolate		
				TOTAL		
1. Raw materials :						
(a) Cocoa beans	0·831	1·193	0·991	0·9466	1·751	1·657
(b) Sugar	0·550	0·375	0·206	0·5304	0·3794	0·201
(c) Flavours			0·003		*	*
Total raw material cost			1·200			1·858
2. Power and fuel			0·011			0·012
3. Labour including bonus			0·076			0·054
4. Repairs and maintenance			0·012			0·019
5. Consumable stores . . . . .			..			0·009
6. Establishment			0·024			0·062

7. Depreciation	0.049	0.099
8. Overheads	0.037	0.056
9. Packing charges	0.115	0.028
10. Advertisement expenses	0.069	0.183
11. Interest on working capital	0.015	0.024
12. Total cost of production	1.608	2.404
13. <i>Less</i> credit for materials recovered (cocoa cake)	0.223	0.117
14. Net cost of production	1.560	2.287
15. Return on block	0.059	0.228
16. Freight disadvantage	0.020	0.020
17. Fair ex-works price inclusive of freight disadvantage	1.639	2.535
	or	or
	Rs. 1 10 3	Rs. 2 8 7

*Negligible.

TABLE II

SATHE BISCUIT & CHOCOLATE CO. LTD., POONA.

Statement showing the cost of production per lb. of cocoa powder estimated by the Tariff Board in 1949 for the year 1950-51 and the cost per lb. for the year 1952-53 as estimated by the commission.

Sl. No.	Details	Previous Board's estimate for 1950-51			Commission's estimate for 1952-53.		
		Quantity	Rate per lb.	Cost per lb.	Production in Tons—26.80		
					Quantity	Rate per lb.	Cost per lb.
		Lbs.	Rs.	Rs.	Lbs.	Rs.	Rs.
1. Raw materials :							
(a) Cocoa beans	.	1.903	1.193	2.270			
(b) Cocoa cakes	1.001	0.733	0.734
(c) Flavour	.	.	.	0.015			*
Total raw material cost	.	.	.	2.285			0.734
2. Power and fuel	.	.	.	0.011			0.006
3. Labour including bonus	.	.	.	0.076			0.050
4. Repairs and maintenance	.	.	.	0.012			0.019
5. Consumable stores			0.009
6. Establishment	.	.	.	0.024			0.062
7. Depreciation	.	.	.	0.049			0.050

8. Other overheads	0.037	0.056
9. Packing charges	0.430	0.028
10. Advertisement expenses	0.069	0.183
11. Interest on working capital	0.013	0.013
12. Total cost of production	3.006	1.210
13. Less credit for materials recovered (cocoa butter)	1.683	..
14. Net cost of production	1.323	1.210
15. Return on block	0.059	0.228
16. Freight disadvantage	0.020	0.020
17. Fair ex-works price inclusive of freight disadvantage	1.402	1.458
	or	or
	Rs. 1 6 5	Rs. 1 7 4

*Negligible.

(d) On the basis of the costs as given above for the year 1952-53, we have worked out estimates of future costs. The following points may be noted in this connection:—

- (i) The estimates relate to an annual production of 240 tons of covering chocolates (both plain and milk) and 60 tons of cocoa powder.
- (ii) The cost of cocoa beans has been calculated at the latest rates paid for Ceylonese beans.
- (iii) Credit has been allowed for cocoa cake containing 15% butter at its market price.
- (iv) Value for cocoa cake containing 25% butter has been estimated on the basis of the market price of cocoa cake containing 15% butter and the value of extra beans which would be required to produce cake containing 25% butter.
- (v) The cost of cocoa powder has been worked out based on the estimated value of cake containing 25% butter and, therefore, no credit for byproducts has been allowed.
- (vi) Interest on working capital has been allowed at 4½ per cent. on 3 months' cost of production.
- (vii) Return on block has been allowed at 10 per cent. on the original book value of the fixed assets.
- (viii) At the previous inquiry, the freight disadvantage of the indigenous products was assessed as equal to the freight payable from Poona to Bombay at public carrier rates. Since the firm is now despatching its products to distant markets, we have allowed freight for a distance of 600 miles at parcel express rates after discussion with the producer. It comes to Re. 0.096 per lb. as against Re. 0.020 per lb. allowed by the Tariff Board.

Our estimates of the future costs of production and fair ex-works prices of covering chocolate and cocoa powder are given below:—

SATHE BISCUIT & CHOCOLATE CO., LTD., POONA

Commission's estimate of the future cost of production and fair ex-works price of covering chocolate per lb.

Estimated production—240 Tons.

Details	Quantity	Rate per lb.	Cost per lb.
	Lbs.	Rs.	Rs.
<i>Raw materials :</i>			
I. (a) Cocoa beans	0.9466	1.829	1.731
(b) Sugar	0.5304	4.22	0.224
Total cost of raw material			<u>1.955</u>

Detail	Quantity	Rate per lb.	Cost per lb.
	Lbs.	Rs.	Rs.
2. Power and fuel			0·012
3. Labour including bonus			0·054
4. Repairs and maintenance			0·009
5. Consumable stores			0·004
6. Establishment			0·032
7. Depreciation			0·086
8. Other overheads			0·027
9. Packing charges			0·027
10. Advertisement expenses			0·096
11. Total cost of production			2·302
12. Less credit for material recovered (cocoa cake)			0·121
13. Net cost of production			2·181
14. Return on block			0·125
15. Interest on working capital			0·023
16. Freight disadvantage			0·096
17. Fair ex-works price inclusive of freight disadvantage			2·425
			or
			Rs. 2 6 10

SATHE BISCUIT & CHOCOLATE CO., LTD., POONA

Commission's estimate of the future cost of production and fair ex-works price of cocoa powder per lb.

Estimated production—60 Tons.

Details	Quantity	Rate per lb.	Cost per lb.
	Lbs.	Rs.	Rs.
1. Raw materials :			
(a) Cocoa beans	1·001	0·763	0·764
(b) Cocoa cakes			
(c) Flavour			
Raw material cost			0·764
2. Power and fuel			0·006
3. Labour including bonus			0·050
4. Repairs and maintenance			0·009
5. Consumable stores			0·004
6. Establishment			0·032
7. Depreciation			0·043
8. Other overheads			0·027
9. Packing charges			0·027

Details	Quantity	Rate per lb.	Cost per lb.
	Lbs.	Rs.	Rs.
10. Advertisement expenses			0.096
11. Total cost of production			1.058
12. Less credit for material recovered (cocoa cake) .			..
13. Net cost of production			1.058
14. Return on block			0.125
15. Interest on working capital			0.011
16. Freight disadvantage			0.096
17. Fair ex-works price inclusive of freight disadvantage			1.290
			or
			Rs. 1 4 8

11. A statement showing the recent c.i.f. prices and landed costs of covering chocolate and cocoa powder furnished by the Collector of Customs, Bombay, and certain importing firms is given in Appendix

C. i. f. prices and landed costs. III. For purposes of comparison given in the following paragraph, we have taken the lowest c.i.f. prices of Rs. 1 per lb. for cocoa powder (packed in $\frac{1}{2}$ lb. tins) and Rs. 1/14 per lb. for covering chocolate as furnished by Cadbury-Fry (India) Ltd.

12. The landed costs ex-duty of the imported products are compared below with our estimates of fair ex-works price inclusive of freight disadvantage of the indigenous products.

	Cocoa powder	Covering chocolate
	Rs.	Rs.
(a) C.i.f. price	1 0 0	1 14 0
(b) Customs duty (31 1/4%)	0 5 0	0 9 5
(c) Clearing charges	0 0 6	0 0 3
(d) Landed cost with duty	1 5 6	2 7 8
(e) Landed cost ex-duty	1 0 6	1 14 3
(f) Fair ex-works price inclusive of freight disadvantage	1 4 8	2 6 10
(g) Difference between (e) and (f)	0 4 2	0 8 7
(h) Above difference shown as a percentage on c.i.f.	26.04	28.61

It will be seen from the above figures that the domestic industry is still in need of protection. As regards the quantum of protection, the rates of duties required to equate the landed costs of the imported products with the fair ex-works prices of the indigenous products work out to 26.04 per cent. in the case of cocoa powder and 28.61 per cent. in the case of covering chocolate. The above comparison, however, takes no account of the factor of consumer's prejudice. While no allowance need be made for this factor in the case of

cocoa powder, the average consumer's preference for foreign brands of chocolate is so strong that it is necessary to add a margin of about 15 per cent. to the fair ex-works price of indigenous chocolate before comparing it with the landed cost of imported chocolate. With this adjustment, the rates of duties required to protect indigenous cocoa powder and covering chocolate come to 26 per cent. and 48 per cent. respectively. The existing duty on these articles is 31½ per cent. In the case of cocoa powder, considering the nature of the article, we see no reason to reduce the duty and, accordingly, recommend that the protective duty on cocoa powder should be maintained at the existing rate of 31½ per cent. (including surcharge). As regards covering chocolates, we recommend that the protective duty should be enhanced to 50 per cent. (including surcharge) with immediate effect. While the existing duty on covering chocolate is 31½ per cent., the duty on confectionery is as high as 62½ per cent. This difference is too wide to be explained by any disadvantage which the confectionery industry may have in comparison with its foreign competitors with respect to the cost of moulding the covering chocolate into eating chocolate. The proposed enhancement of duty on covering chocolate to 50 per cent. would help to remove the disparity besides giving adequate protection to the domestic industry. The industry is, however, expected to maintain its selling prices in fair relation to its costs. The protective duties recommended by us should remain in force for a further period ending 31st December, 1956.

13. At the public inquiry, the representatives of confectionery **Other recommenda-** trade complained that they had experienced **tions.** great difficulties in obtaining their requirements of cocoa butter from Sathe Biscuit and Chocolate Co. Ltd. It was stated that the Sathes who are the only producer of cocoa butter in the country, were not producing sufficient quantity to meet the entire domestic demand; secondly, the price charged by them was excessive; and thirdly, they restricted their sales only to those consumers who purchased covering chocolate from them. The representatives of the confectionery trade, therefore, asked for free imports of cocoa butter. This question was discussed in detail during the public inquiry. Sathes while admitting that they had been

Company should take steps to expand their production of cocoa butter with a view to meeting the entire domestic requirements.

14. If our recommendation to impose a higher rate of protective duty on covering chocolate is accepted by Government, the relevant item in the Customs Tariff Schedule should be amended as under:—

Item No.	Name of article	Nature of duty	Standard rate of duty	Preferential rate of duty if the article is the produce or manufacture of			Duration of protective rates of duty
				The United Kingdom.	A British Colony	Burma	
18. (a)	Cocoa powder	Protective	31 1/4 per cent <i>ad valorem</i>	..	..	12½ per cent <i>ad valorem</i>	December 31st, 1956
(b)	Chocolate other than confectionery.	Do.	50 per cent <i>ad valorem</i>	..	..	*	Do.

*To be fixed in accordance with the Indo-Burma Trade Agreement.

15. Our conclusions and recommendations are summarised below:—

(i) Government should consider the desirability of placing cocoa beans on Open General Licence.

[Paragraph 4(a)]

(ii) Cocoa beans should continue to be exempted from payment of import duty.

[Paragraph 4(a)]

(iii) The current demand for chocolate and cocoa powder taken together is estimated at 10,000 cwts. per annum. .

[Paragraph 5]

(iv) The present installed capacity of the industry for the manufacture of cocoa powder and covering chocolate is 3,000 cwts. and 11,200 cwts. respectively per annum on a single shift basis. The actual production of cocoa powder by the industry during the last three years was 231 cwts. in 1951, 520 cwts. in 1952 and 1,056 cwts. in 1953; and that of covering chocolate during these three years was 3,052 cwts., 3,452 cwts. and 2,046 cwts. respectively.

[Paragraph 6]

(v) Considerable improvement has taken place in the quality of the indigenous cocoa powder and covering chocolate since the last inquiry.

[Paragraph 7]

(vi) Sathe Biscuit & Chocolate Co. should make further efforts to improve the keeping quality of their products.

[Paragraph 7]

(vii) The import duty on cocoa powder should be maintained at the existing rate of 31½ per cent. *ad valorem* (including surcharge). As regards covering chocolate, the protective duty should be raised to 50 per cent. *ad valorem* (including surcharge) with immediate effect. These rates of duties should remain in force till 31st December, 1956.

[Paragraph 12]

(viii) The Sathe Biscuit & Chocolate Co. Ltd. should take steps to expand their production of cocoa butter with a view to meeting the entire domestic requirements.

[Paragraph 13]

16. We wish to thank the representatives of producers, importers and consumers, who furnished us with information and gave evidence before us at the public inquiry.

B. N. ADARKAR, *Member*.

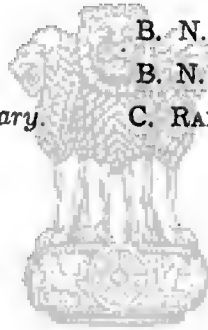
B. N. DAS GUPTA, *Member*.

D. K. MALHOTRA, *Secretary*.

C. RAMASUBBAN, *Member*.

Bombay,

Dated 30th June, 1954.



सत्यमेव जयते

APPENDIX I

[Vide paragraph 3(a)]

List of firms to whom the Commission's questionnaires were issued and those who replied thereto

(*) Those who have replied.

(a) *Producers:*

- *1. Sathe Biscuit & Chocolate Co., Ltd., 820, Bhavani Peth, Poona.
2. Pure Products & Madhu Canning Ltd., D.V. Annie Besant Road, Worli, Bombay-18.
- *3. G.G. Chocolate Factory, Agra.
- *4. D. D. Writer & Co., Bhawani Shanker Road, Dadar, Bombay-14.
- *5. Cadbury-Fry (India) Ltd., Spencer Building, Forjett Street, Bombay-1.
- *6. East India Distilleries & Sugar Factories Ltd., Mg. Agents, Parry & Co., Ltd., Post Box No. 12, Madras.

(b) *Importers:*

1. Nestle's Products (India) Ltd., 7, Hare Street, Calcutta.
- *2. Graham Trading Co. (India) Ltd., 16, Bank Street, Bombay-1.
3. Herbertsons Ltd., 11-13, Elphinstone Circle, Bombay.
- *4. T. T. Krishnamachari & Co., Linghichetty Street, Madras-1.
5. T. T. Krishnamachari & Co., Bombay Co-operative Insurance Co. Bldg., 5th Floor, Sir Phirozeshah Mehta Road, Bombay-1.
- *6. Cadbury-Fry (India) Ltd., Spencer's Building, Forjett Street, Bombay-1.
- *7. Great Western Stores, Hornby Road, Bombay-1.

(c) *Consumers:*

1. Army & Navy Stores, Hornby Road, Bombay.
2. Great Western Stores, Standard Building, Hornby Road, Bombay.
3. Eros Restaurant, Churchgate, Bombay.
4. Magnolia Dairy Products Ltd., D-2, Hide Street, Calcutta.
5. Marosa & Co. Ltd., 13, Meadows Street, Bombay.
6. J. J. Sprung, Forbes Street, Fort, Bombay.
7. Mongini Ltd., Churchgate Street, Fort, Bombay.

(d) *Associations:*

1. Indian Confectionery Manufacturers' Assn., 23-B, Netaji Subhas Road, Calcutta.

(e) *Government Departments:*

- *1. Development Wing, Ministry of Commerce and Industry, New Delhi.
- *2. Central Food Technological Research Institute, Mysore.

APPENDIX II

[Vide paragraph 3(c)]

List of persons who attended the public inquiry on 15th January, 1954.

Name of Representative	Name of firm
<i>Producers :</i>	
1. Shri G.R. Sathe	} Representing The Sathe Biscuit and Chocolate Co. Ltd., Post Box No. 597, 820 Bhawani Peth, Poona-2.
2. Shri S.M. Joshi	
3. Shri J.D. Writer	Do. Dr. D. Writer and Co., Bhavanishanker Road, Dadar, Bombay-28.
<i>Importers :</i>	
1. Mr. W.S.G. Nelson	Do. Cadbury-Fry (India) Ltd., Spencer's Building, Forjet Street, Bombay-26.
2. Shri V.S. Aiyer	Do. T.T. Krishnamachari & Co. Bombay Co-operative Insurance Co. Bldg., Sir P.M. Road, Bombay.
3. Shri Frameroz D. Mehta	} Do. F.D. Mehta & Co., Standard Building, Hornby Road, Fort, Bombay.
4. Shri Minoo F. Mehta	
5. Mr. R.D. Bagshaw	Do. Grahams Trading Co. (India) Ltd., 16, Bank Street, Bombay-1.
<i>Consumers :</i>	
1. Shri V.A. Hattiholi	Do. Bennie's Products, Bombay.
2. Shri J.J. Gandhi	Do. J.J. Sprung, Forbes Street, Fort, Bombay.

APPENDIX III

[Vide paragraph 11]

Statement showing C.I.F. prices and landed costs of imported cocoa and chocolate.

Source of information	Origin of import	Date of import	Specification	Per lb.	
				d	Remarks
1. M/s. Cadbury-Fry (India) Ltd., Bombay	U.K.				
Do.	"	September, 1953	Cocoa powder		For bulk packings.
Do.	"	28-11-1953	Do.		
Do.	"		Cocoa powder (unsweetened).		
Do.	"		Covering chocolate.		For bulk packings.
Do.	"	September, 1953	Do.		
Do.	"	29-9-1953	Do.		
Do.	"	28-11-1953	Do.		
2. M/s. Grahams Trading Co. (India) Ltd., Bombay.	"	July, 1953	Milk covering chocolate.		
3. Collector of Customs Bombay	"	August, 1953	Cocoa powder		
Do.	"	Do.	Covering chocolate		
4. M/s. F.D. Mehta and Co., Bombay	Sweden	November, 1953	Plain couverture		